



**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
STATE OF HAWAII**

Audit of Expenditures
For the Quarter Ended September 30, 2004

Internal Audit Report No. 05-46

AUDIT DIVISION
Department of
Accounting and General Services
July 22, 2005

EXECUTIVE SUMMARY

The Department of Accounting and General Services, Audit Division, conducted an audit of the Department of Labor and Industrial Relations' (the Department) expenditures for the quarter ended September 30, 2004 to determine whether expenditure payments made by the Department are legal, recorded to the proper account, in compliance with applicable laws, rules and regulations, policies and procedures, and established accounting procedures and internal controls.

The mission of the Department is to ensure and increase the economic security, well-being, and productivity of Hawaii's workers. It promotes access to employment and strives to alleviate the economic hardship of workers during periods of disability or temporary unemployment; and protect the employment rights of workers and assure a safe and healthy workplace.

With respect to the audit of the Department's expenditures, we noted the following:

- Seventeen (17) vendors' invoices totaling \$34,298.51, had the "Goods/Services Received in Satisfactory Condition" stamp on the invoice, signed by an authorized employee, but without the required date. Fifteen (15) vendors' invoices were in compliance with Section 103-10, HRS, as the payments were made within 30 days of the receipt of the vendor invoices. Two vendors' invoices totaling \$4,403.00 were not in compliance with Section 103-10, HRS.
- Four (4) vendors' invoices totaling \$52,376.38 did not have on the invoice a "Goods/Services Received in Satisfactory Condition" stamp, signed and dated by an authorized state employee to certify the satisfactory delivery of the goods or performance of the services, as required under the established accounting procedures.

We recommend that the Department establish controls to comply with Sections 40-2 and 103-10, HRS, and the State's Accounting Manual.

In response, the Department concurs with the audit findings and will implement controls to comply with Sections 40-2 and 103-10, HRS, and the State's Accounting Manual.

**DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
STATE OF HAWAII**

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I. INTRODUCTORY SECTION

LINDA LINGLE
GOVERNOR



Russ K. Saito
Comptroller

Katherine H. Thomason
Deputy Comptroller

**STATE OF HAWAII
DEPARTMENT OF ACCOUNTING
AND GENERAL SERVICES**

P.O. BOX 119
HONOLULU, HAWAII 96810-0119

AUD 06.0002

July 22, 2005

The Honorable Nelson B. Befitel
Director
Department of Labor and Industrial Relations
State of Hawaii
830 Punchbowl Street, Room 321
Honolulu, Hawaii 96813

Dear Mr. Befitel:

In accordance with the provisions of Section 26-6 of the Hawaii Revised Statutes, I present you with a financial audit report on the Department of Labor and Industrial Relations' expenditures for the quarter ended September 30, 2004.

The report is presented in two sections: introductory and noncompliance. The introductory section includes this transmittal letter, a summary of services, introduction, background, scope, objectives, methodology, and audit procedures performed. The noncompliance section includes a schedule of audit findings with recommendations.

Sincerely,

A handwritten signature in cursive script, reading "Russ K. Saito".

RUSS K. SAITO
State Comptroller

SUMMARY

The Department of Accounting and General Services (DAGS), Audit Division, conducted an audit of the Department of Labor and Industrial Relations' (the Department) expenditures for the quarter ended September 30, 2004 to determine whether expenditure payments made by the Department are legal, recorded to the proper account, in compliance with applicable laws, rules and regulations, policies and procedures, and established accounting procedures and internal controls.

INTRODUCTION

Authority to conduct this audit resides in Section 26-6, Hawaii Revised Statutes (HRS), which authorizes after-the-fact audits to determine the legality of expenditures and the accuracy of the accounts. In addition, Section 40-2, HRS, requires the State Comptroller to ensure that all accounting procedures and internal controls of departments in the executive branch of the State government adhere to prescribed policies and procedures and accounting principles generally accepted in the United States of America.

This audit is part of the Audit Division's 2004-2005 Audit Plan. The Audit Division maintains its organizational independence in accordance with section 3.27, Independence Standards, *Government Auditing Standards*.

Audit fieldwork took place March 30, 2005 through May 20, 2005 at the DAGS' Pre-Audit Branch and the Department's fiscal office at 830 Punchbowl Street, Honolulu, Hawaii. Steven J. Lee, Supervising Auditor, conducted the audit under the supervision of Wayne L. Chu, CPA, Audit Division Administrator.

BACKGROUND

The Department was created in 1959 by the Hawaii State Government Reorganization Act of 1959 (Act 1, Second Special Session Laws of Hawaii 1959). The primary function of the Department is to ensure and increase the economic security, well-being, and productivity of Hawaii's workers. It promotes access to employment and strives to alleviate the economic hardship of workers during periods of disability or temporary unemployment; and protect the employment rights of workers and assure a safe and healthy workplace.

SCOPE, OBJECTIVES, AND METHODOLOGY

The audit includes an examination of expenditures paid by the Department during the period July 1, 2004 through September 30, 2004. The audit objectives are to determine the legality of expenditures, accuracy of accounts, and the Department's compliance with applicable laws, rules and regulations, policies and procedures, and established accounting procedures and internal controls.

Department of Labor and Industrial Relations
Audit of Expenditures Report – Quarter Ended September 30, 2004

This report includes detail testing of a sample of expenditure transactions and does not include the Department's other financial transactions, such as payroll expenditures, cash receipts and journal vouchers (JVs). The audit was conducted in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

A listing of the Department's expenditures for the quarter ended September 30, 2004, from the State's Financial Accounting and Management Information System, was used for sampling and verification to source documents during the audit. The Department processed for payment 6,186 expenditure transactions totaling \$48,649,686.13 during the quarter ended September 30, 2004.

We examined 50 randomly selected expenditure transactions, totaling \$157,353.70, as outlined below:

	<u>Total Population</u>	<u>Sample</u>	
		<u>Count</u>	<u>Amount</u>
Expenditures	\$ 4,680,517.60	41	\$ 94,088.97
Contract expenditures:			
Professional services	33,751.78	1	1,257.00
Others	5,360,708.92	8	62,007.73
Payroll expenditures and JVs	<u>38,574,707.83</u>	-	-
Totals	<u>\$48,649,686.13</u>	<u>50</u>	<u>\$157,353.70</u>

To gain an understanding of the Department's procedures in processing expenditures for payment and documenting the internal controls related to those procedures, we interviewed appropriate personnel, reviewed applicable available written policies and procedures, and documented our understanding of the established accounting procedures and internal controls in place during the audit period.

AUDIT PROCEDURES PERFORMED

We reviewed documents supporting expenditures such as vendor's invoices, purchase orders, summary warrant vouchers, requisition forms, procurement documents, contracts and inventory records to determine compliance with applicable laws, rules and regulations, policies and procedures, and compliance with established accounting procedures and internal controls.

Based on our detail testing of expenditure transactions, we found 41 expenditures and 9 contract expenditures to be legal expenditures of the Department, properly recorded and processed by the Department, and in compliance with applicable laws, rules and regulations, policies and procedures, and established accounting procedures and internal controls, except for the 2 audit findings presented in the noncompliance section of the report.

II. NONCOMPLIANCE SECTION

AUDIT FINDINGS WITH RECOMMENDATION

The procedures enumerated below were performed to determine whether payments made by the Department are legal, recorded to the proper account, in compliance with applicable laws, rules and regulations, policies and procedures, and established accounting procedures and internal controls.

AUDIT FINDING NO. 1 – SATISFACTORY RECEIPT OF GOODS AND SERVICES - DATE REQUIRED

Section 40-2, HRS, establishes the accounting procedures used by State departments. The State's Accounting Manual describes in detail the accounting procedures. The State's accounting procedures uses purchase order forms to document authorization to purchase specified merchandise or the rendering of certain services. The State's accounting procedures uses a "Goods/Services Received in Satisfactory Condition" stamp, signed and dated by an authorized state employee to certify the satisfactory delivery of the goods or performance of the services. The control is the authorized state employee's certification.

Section 103-10, HRS, states that vendors shall be paid no later than 30 calendar days following receipt of the statement (vendor's invoice) or satisfactory delivery of the goods or performance of the services. The certification of satisfactory delivery of the goods or performance of the services cannot be determined if the authorized state employee does not sign and date on the appropriate line of the stamp.

As a result of our detail testing, we found 17 vendors' invoices totaling \$34,298.51, with a "Goods/Services Received in Satisfactory Condition" stamp on the invoices, signed by an authorized employee, but not dated. With no date indicated, 2 of the payments totaling \$4,403.00 that were made after 30 days from receipt of the vendors' invoices were not in compliance with Section 103-10, HRS. The remaining payments were made in compliance with Section 103-10, HRS, as the payments were made within 30 days of receipt of the vendors' invoices.

Procedures Performed

We interviewed the Department's Business Management Officer. We examined the vendors' invoices for the "Goods/Services Received in Satisfactory Condition" stamp, signatures, and dates.

Recommendation

The Department shall establish controls to comply with Sections 40-2 and 103-10, HRS, and the State's Accounting Manual. The Department shall ensure that vendor invoices shall be stamped with a "Goods/Services Received in Satisfactory Condition" stamp, signed by an authorized employee, and dated before submitting to the Department of Accounting and General Services for payment.

AUDIT FINDING NO. 2 – SATISFACTORY RECEIPT OF GOODS AND SERVICES - STAMP REQUIRED

As noted in Audit Finding No. 1, above, the State's accounting procedures uses a "Goods/Services Received in Satisfactory Condition" stamp, signed and dated by an authorized state employee to certify the satisfactory delivery of the goods or performance of the services.

We noted four vendors' invoices totaling \$52,376.38 were processed for payment without the "Goods/Services Received in Satisfactory Condition" stamp on the invoice.

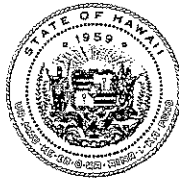
Procedures Performed

We interviewed the Department's Business Management Officer. We examined the vendors' invoices for the "Goods/Services Received in Satisfactory Condition" stamp, signatures, and dates.

Recommendation

The Department shall establish controls to comply with Section 40-2, HRS, and the State's Accounting Manual. The Department shall ensure that all vendors' invoices processed for payment are stamped with a "Goods/Services Received in Satisfactory Condition" stamp, signed and dated by an authorized state employee, before submitting to the Department of Accounting and General Services for payment.

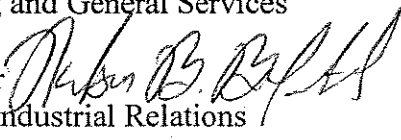
III. DEPARTMENT'S RESPONSE



STATE OF HAWAII
DEPARTMENT OF LABOR AND INDUSTRIAL RELATIONS
830 PUNCHBOWL STREET
HONOLULU, HAWAII 96813

July 8, 2005

TO: The Honorable Russ K. Saito, Comptroller
Department of Accounting and General Services

FROM: Nelson B. Befitel, Director 
Department of Labor and Industrial Relations

SUBJECT: Internal Audit Report No. 05-46

The Department of Labor and Industrial Relations (DLIR) reviewed the audit findings and recommendations and would like to submit the enclosed corrective action plan for the Fiscal Year 2005 Internal Audit.

AUDIT FINDING WITH RECOMMENDATION

The procedures enumerated below were performed to determine whether payments made by the Department are legal, recorded to the proper account, in compliance with applicable laws, rules and regulations, policies and procedures, and established accounting procedures and internal controls.

AUDIT FINDING No. 1 – SATISFACTORY RECEIPT OF GOODS AND SERVICES - DATE REQUIRED

Section 40-2, HRS establishes the accounting system used by State departments. The State's Accounting Manual describes in detail the accounting system. The State's accounting system uses purchase order forms to document authorization to purchase specified merchandise or the rendering of certain services. It uses a "Goods/Services Received in Satisfactory Condition" stamp, signed and dated by an authorized state employee to certify the satisfactory delivery of the goods or performance of the services. The control is the authorized state employee's certification.

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The Honorable Russ K. Saito, Comptroller
July 8, 2005
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performance of the services cannot be determined if the authorized state employee does not sign and date on the appropriate line of the stamp.

As a result of our detail testing, we found 17 vendors' invoices totaling \$34,298.51, with a "Goods/Services Received in Satisfactory Condition" stamp on the invoices, signed by an authorized employee, but not dated. With no date indicated, 2 of the payments totaling \$4,403.00 that were made after 30 days from receipt of the vendors' invoices were not in compliance with Section 103-10, HRS. The remaining payments were made in compliance with Section 103-10, HRS, as the payments were made within 30 days of receipt of the vendors' invoices.

Procedures Performed

We interviewed the Department's Business Management Officer. We examined the vendors' invoices for the "Goods/Services Received in Satisfactory Condition" stamp, signatures and dates.

Recommendation

The Department shall establish controls to comply with Sections 40-2 and 103-10, HRS, and the State's Accounting Manual. The Department shall ensure that vendor invoices shall be stamped with a "Goods/Services Received in Satisfactory Condition" stamp, signed by an authorized employee, and dated before submitting to the Department of Accounting and General Services for payment.

Corrective Action

The Department concurs with the finding and recommendation. The Department will establish and implement formal procedures to ensure vendor invoices are stamped with "Goods/Services Received in Satisfactory Condition" and that it is signed by an authorized employee prior to submitting them to the Department of Accounting and General Services for payment.

Time Frame

An instructional inter-departmental memorandum will be issued to all Departmental programs by July 31, 2005 requiring that the applicable invoices are stamped, signed and dated by an authorized employee.

The Honorable Russ K. Saito, Comptroller
July 8, 2005
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Audit Finding No. 2 – SATISFACTORY RECEIPT OF GOODS AND SERVICES - STAMP REQUIRED

As noted in Audit Finding No. 1, above, the State's accounting system uses a "Goods/Services Received in Satisfactory Condition" stamp, signed and dated by an authorized state employee to certify the satisfactory delivery of the goods or performance of the services.

We noted four vendors' invoices totaling \$52,376.38 were processed for payment without the "Goods/Services Received in Satisfactory Condition" stamp on the invoice.

Procedures Performed

We interviewed the Department's Business Management Officer. We examined the vendors' invoices for the "Goods/Services Received in Satisfactory Condition" stamp, signatures, and dates.

Recommendation

The Department shall establish controls to comply with Section 40-2, HRS, and the State's Accounting Manual. The Department shall ensure that all vendors' invoices processed for payment are stamped with a "Goods/Services Received in Satisfactory Condition" stamp, signed and dated by an authorized state employee, before submitting to the Department of Accounting and General Services for payment.

Corrective Action

The Department concurs with the finding and recommendation. The Department will issue an inter-departmental memorandum to inform all programs that every invoice must be stamped with "Goods/Services Received in Satisfactory Condition", and that they are signed and properly dated by authorized personnel. The Department will also pre-audit invoices submitted by the programs to ensure that it satisfies the requirements of Section 103-10, HRS.

Time Frame

An instructional memorandum will be issued to all Departmental programs by July 31, 2005 requiring that the required invoices are stamped, signed and dated by an authorized employee.

If you have any questions on our response, please call me at 586-8844, or have your staff contact Mr. Patrick Fukuki, Business Management Officer, at 586-8888.